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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1992

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-1218

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED

(Exact name of registrant as specified in its charter)

NORTH CAROLINA
(State or other jurisdiction of
incorporation or organization)

400 COX ROAD, P.O. BOX 1398
GASTONIA, NORTH CAROLINA
(Address of principal executive offices)

Microfilmed
By
Q-Data
Corporation
St. Petersburg, FL

56-0233140
(I.R.S. Employer
Identification No.)

28053-1398
(Zip Code)

(704) 864-6731

(Registrant's telephone number, including area code)

NONE

(Former name, former address and former fiscal year,
if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Number of shares of Common Stock, \$1 par value, outstanding
at July 31, 1992 10,348,979

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

The condensed financial statements included herein have been prepared by the registrant without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the registrant believes that the disclosures herein are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the registrant's latest annual report on Form 10-K.

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Three Months Ended June 30		Nine Months Ended June 30		Twelve Months Ended June 30	
	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>
Operating revenues	\$45,104	\$33,755	\$210,042	\$168,795	\$234,486	\$192,111
Cost of gas	<u>23,112</u>	<u>15,434</u>	<u>113,696</u>	<u>90,360</u>	<u>125,248</u>	<u>103,119</u>
Gross margin	<u>21,992</u>	<u>18,321</u>	<u>96,346</u>	<u>78,435</u>	<u>109,238</u>	<u>88,992</u>
Operating expenses and taxes:						
Operating and maintenance	10,785	9,171	32,500	29,417	41,542	38,065
Provision for depreciation	3,298	3,321	9,735	9,078	12,867	11,848
General taxes	2,641	2,182	10,233	8,738	12,087	10,516
Income taxes	<u>760</u>	<u>140</u>	<u>12,657</u>	<u>7,564</u>	<u>11,000</u>	<u>5,478</u>
	<u>17,484</u>	<u>14,814</u>	<u>65,125</u>	<u>54,797</u>	<u>77,496</u>	<u>65,907</u>
Operating income	4,508	3,507	31,221	23,638	31,742	23,085
Other income (deductions)	(470)	(299)	28	110	(197)	450
Interest deductions	<u>3,247</u>	<u>3,273</u>	<u>10,150</u>	<u>10,021</u>	<u>13,583</u>	<u>13,336</u>
Net income (loss)	791	(65)	21,099	13,727	17,962	10,199
Preferred dividends	<u>24</u>	<u>27</u>	<u>73</u>	<u>84</u>	<u>100</u>	<u>114</u>
Earnings (loss) applicable to common stock	<u>\$ 767</u>	<u>\$ (92)</u>	<u>\$ 21,026</u>	<u>\$ 13,643</u>	<u>\$ 17,862</u>	<u>\$ 10,085</u>
Average common shares outstanding	10,295	9,993	10,212	9,920	10,171	9,880
Earnings (loss) per share	\$.07	\$ (.01)	\$ 2.06	\$ 1.38	\$ 1.76	\$ 1.02
Cash dividends declared per share	\$.285	\$.275	\$.835	\$.825	\$ 1.11	\$ 1.10

CONSOLIDATED BALANCE SHEETS
(In thousands)

	ASSETS		
	Jun 30 1992	Sep 30 1991	Jun 30 1991
Gas utility plant	\$432,310	\$413,982	\$406,095
Less - Accumulated depreciation	<u>129,158</u>	<u>120,491</u>	<u>117,902</u>
	<u>303,152</u>	<u>293,491</u>	<u>288,193</u>
Non-utility property, net	10,860	11,293	11,319
Current assets:			
Cash and temporary investments	9,431	3,190	5,031
Restricted cash and temporary investments	6,115	-	-
Receivables, less allowance for doubtful accounts	10,468	12,389	12,853
Materials and supplies	7,164	7,036	7,671
Stored gas inventory	5,353	7,464	4,985
Deferred gas cost	619	1,002	926
Recoverable purchased gas cost	4,217	12,289	9,518
Prepayments	<u>759</u>	<u>637</u>	<u>900</u>
	<u>44,126</u>	<u>44,007</u>	<u>41,884</u>
Deferred charges and other assets	3,466	3,335	3,082
Total	<u>\$361,604</u>	<u>\$352,126</u>	<u>\$344,478</u>
CAPITALIZATION AND LIABILITIES			
Capitalization:			
Common equity -			
Common stock, \$1 par	\$ 10,304	\$ 10,054	\$ 9,996
Capital in excess of par value	63,796	59,672	58,821
Retained earnings	<u>46,949</u>	<u>34,671</u>	<u>40,611</u>
	<u>121,049</u>	<u>104,397</u>	<u>109,428</u>
Redeemable preferred stock, \$25 par	1,602	1,720	1,852
Long-term debt	<u>132,556</u>	<u>104,094</u>	<u>104,094</u>
	<u>255,207</u>	<u>210,211</u>	<u>215,374</u>
Current liabilities:			
Maturities of long-term debt	3,538	4,417	4,417
Accounts payable	10,026	11,357	9,062
Accrued taxes	6,289	4,558	6,591
Refunds due customers	3,727	18,826	19,176
Customer deposits	1,645	1,559	1,591
Cash dividends and interest	4,821	5,977	4,701
Accrued pension cost	10,105	8,012	7,358
Restricted supplier refunds	6,115	-	-
Customer prepayments and other	<u>10,182</u>	<u>11,017</u>	<u>11,819</u>
	<u>56,448</u>	<u>65,723</u>	<u>64,715</u>
Interim bank loans	-	29,000	18,000
	<u>56,448</u>	<u>94,723</u>	<u>82,715</u>
Deferred investment tax credits	5,857	6,438	6,308
Deferred income taxes	44,092	40,754	40,081
Total	<u>\$361,604</u>	<u>\$352,126</u>	<u>\$344,478</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(In thousands)

	Twelve Months Ended June 30	
	1992	1991
Balance beginning of period	\$40,611	\$41,531
Add - Earnings for common stock	17,862	10,085
Deduct - Common stock dividends and other	<u>11,524</u>	<u>11,005</u>
Balance end of period	<u>\$46,949</u>	<u>\$40,611</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended June 30		Twelve Months Ended June 30	
	1992	1991	1992	1991
Cash Flows From Operating Activities:				
Net income	\$21,099	\$13,727	\$17,962	\$10,199
Adjustments to reconcile net income to net cash provided by operating activities -				
Depreciation, depletion and other	11,305	10,501	15,173	14,070
Deferred income taxes	3,339	2,609	4,012	3,978
Change in operating assets and liabilities:				
Receivables, net	1,217	(1,865)	1,562	(3,989)
Inventories	1,983	5,056	139	(296)
Accounts payable	(1,331)	(1,336)	963	(1,278)
Other assets and liabilities	(4,771)	(4,756)	(8,656)	(6,095)
	<u>32,841</u>	<u>23,936</u>	<u>31,155</u>	<u>16,589</u>
Cash Flows From Investing Activities:				
Construction expenditures	(20,283)	(27,750)	(28,994)	(34,968)
Non-utility and other	(45)	(5,205)	(486)	(6,017)
	<u>(20,328)</u>	<u>(32,955)</u>	<u>(29,480)</u>	<u>(40,985)</u>
Cash Flows From Financing Activities:				
Sale of senior debentures, net of expenses	31,752	-	31,752	-
Issuance of common stock through dividend reinvestment, stock purchase and stock option plans	4,163	3,512	5,080	4,382
Increase (decrease) in interim bank loans, net	(29,000)	16,000	(18,000)	18,000
Retirement of long-term debt, preferred and common stock	(4,751)	(2,175)	(4,894)	(2,307)
Cash dividends	(8,436)	(8,209)	(11,213)	(10,914)
	<u>(6,272)</u>	<u>9,128</u>	<u>2,725</u>	<u>9,161</u>
Net increase (decrease) in cash and temporary investments	6,241	109	4,400	(15,235)
Cash and temporary investments at beginning of period	<u>3,190</u>	<u>4,922</u>	<u>5,031</u>	<u>20,266</u>
Cash and temporary investments at end of period	<u>\$ 9,431</u>	<u>\$ 5,031</u>	<u>\$ 9,431</u>	<u>\$ 5,031</u>
Cash paid during the period for:				
Interest (net of amount capitalized)	\$ 9,912	\$ 9,645	\$11,498	\$10,845
Income taxes	7,549	-	7,549	1,147

NOTES TO FINANCIAL STATEMENTS

1. For information regarding significant accounting policies, subsidiary operations, ongoing regulatory matters, redeemable preferred stock, common stock, employee benefit plans, short-term borrowing arrangements, income taxes, environmental issues, long-term debt and construction program, reference is made to the Company's September 30, 1991 Annual Report.

The Company's business is seasonal in nature. The interim results for the first, second and third quarters are not indicative of those which may be expected for the annual period.

Certain amounts previously reported have been reclassified to conform with the current period's presentation.

2. During fiscal 1992, the Company received \$6,029,000 of refunds from its pipeline supplier. These refunds, along with interest earned thereon of \$86,000, are reported in restricted cash and temporary investments and restricted supplier refunds. The investment and use of these funds have been restricted by an order of the North Carolina Utilities Commission (NCUC). Pursuant to the order, these funds are to remain segregated from the Company's general funds and, pending further order of the NCUC, may be used for expansion of the Company's facilities into unserved territories or refunded to customers.

3. In February 1992, the Financial Accounting Standards Board (FASB) issued its Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," which will require the Company to make certain changes in its accounting for both current and deferred income taxes. This statement supersedes SFAS No. 96 previously issued. The Company is required to implement this statement no later than its fiscal year beginning October 1, 1993. Under SFAS No. 109, deferred income tax balances must reflect tax rates in effect at the time of adoption. At current rates, this would result in reduced deferred income taxes with a corresponding regulatory liability. Based on past and expected regulatory treatment, adoption of the standard is not expected to have a material effect on the Company's financial position or results of operations.

4. In December 1990, the FASB issued its SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," required to be adopted no later than its fiscal year beginning October 1, 1993. The Company does not plan to adopt the standard prior to that time, and does not expect the adoption to materially affect its financial position or results of operations based upon recent regulatory treatment afforded other companies under the jurisdiction of the NCUC.

5. As discussed more fully in Note 9 to the financial statements of the 1991 Annual Report, the Company undertook a preliminary evaluation of six sites on which manufactured gas operations were previously conducted. The preliminary evaluation, which was completed in June 1992, indicates that five of the sites evaluated will require further investigation and may require some level of remedial action. As a result of this evaluation, the Company accrued \$750,000 for further investigative costs in current liabilities with a corresponding charge to operating expenses. To the extent the Company may incur or be determined to be responsible for cleanup costs, the Company will pursue recovery through all appropriate means. Management cannot predict the outcome of this matter at this time.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Changes in Financial Condition

The capital expansion program, through the construction of lines, services, systems, facilities and the purchase of equipment, is designed to help the Company meet the growing demand for its product. The Company's fiscal 1992 construction budget was increased by the Board of Directors at its July 22, 1992 meeting from \$31,445,000 to \$33,000,000. Actual construction expenditures for fiscal 1991 were \$36,461,000. At this meeting, the Board approved a fiscal 1993 construction budget of \$39,000,000. Both of the increases were made in view of the continuing heavy demand for gas service in the Company's sales territory. The construction program is regularly reviewed by management and is dependent upon the Company's continuing ability to generate adequate funds internally and to sell new issues of debt and equity securities on acceptable terms. Construction expenditures during the nine and twelve months ended June 30, 1992 were \$20,283,000 and \$28,994,000, respectively, as compared to \$27,750,000 and \$34,968,000 for the same periods a year ago. The decrease in comparative construction expenditures for the nine- and twelve-month periods is due to the completion of a large transmission line project during the first quarter of fiscal 1991 and reflects a concerted effort by the Company to reduce construction expenditures through marketing programs which emphasize load growth through the addition of customers on existing distribution mains.

On June 26, 1992, the Company issued and sold through private placement \$32,000,000 of 8.75%, Senior Debentures due 2012 to three institutional investors. The majority of the net proceeds from this sale was used to retire all outstanding short-term indebtedness. At June 30, 1992, the remaining proceeds were invested in temporary investments and were later used to finance a portion of the Company's 1992 capital expansion program and for other general corporate purposes. Depending upon market conditions, construction levels and internal fund generation, management anticipates another long-term debt issue in the \$25,000,000 range during the last half of fiscal 1993. However, management does not see the need for a public offering of common stock for the foreseeable future due to the Company's current capital position, earnings trend and dividend reinvestment/stock purchase plan contributions to equity.

Restricted cash and temporary investments and restricted supplier refunds, as discussed in Note 2 to the financial statements, are attributable to refunds of \$6,029,000 received from the Company's pipeline supplier during fiscal 1992 and interest earned thereon of \$86,000. The investment and use of these funds have been restricted by an order of the NCUC. Pursuant to the order, these funds are to remain segregated from the Company's general funds and, pending further order of the NCUC, may be used for expansion of the Company's facilities into unserved territories or refunded to customers. On August 7, 1992, the Company received additional supplier refunds of \$4,288,000 which have been added to the restricted supplier refund account.

MANAGEMENT'S DISCUSSION (Continued)

There were no short-term bank loans outstanding at June 30, 1992 due to the retirement of the short-term indebtedness previously discussed. The Company utilizes short-term financing temporarily, together with internally generated funds, long-term debt and equity financing to fund its continuing construction program, seasonal financing of stored gas inventories and other general corporate requirements. The Company has committed lines of short-term bank credit with ten banks which in total range from \$15,000,000 to \$27,000,000 for the twelve-month period beginning April 1, 1992, based upon the Company's projected cash requirements. The Company also has uncommitted lines of credit with two other banks which total \$19,000,000. These lines of credit are reviewed and updated annually. Management believes these lines are currently adequate to finance construction expenditures, stored gas inventories and other corporate needs.

The decrease in recoverable purchased gas costs from June 30, 1991 and September 30, 1991 was due primarily to a collection increment implemented during January 1992 and a rate mechanism approved in an order of the NCUC dated June 6, 1990 providing that the Company should neither overcollect nor undercollect its fixed gas costs incurred after April 1, 1990. Fixed gas costs include charges for firm transportation, firm gas supply and firm storage and are billed equally each month by the Company's pipeline supplier. In accordance with this order and effective April 1, 1991, the Company began recording monthly the difference between fixed gas costs incurred and billed by the Company to its customers, thereby matching fixed gas cost expenses to the period in which they are recovered through rates and ensuring that any overcollections or undercollections of these costs are set aside for future refund to or collection from customers. The decrease during these periods reflects the collection of fixed gas costs in excess of the level incurred.

At June 30, 1992 refunds due customers were \$3,727,000 as compared to \$18,826,000 at September 30, 1991. This decrease was due primarily to the operation of the Company's Rider D rate mechanism. During the current fiscal year, this mechanism generated net gas cost savings of \$22,000,000, while refunds paid to customers during this period approximated \$35,000,000. These refunds included \$13,000,000 of bill credits applied to customers' bills during May 1992.

Effective May 1992, PSNC Propane Corporation, a second-tier subsidiary of Public Service Company of North Carolina, Inc., sold for cash its retail propane assets in Roxboro, North Carolina to a propane distributor in the region for approximately book value. This sale was the primary reason for the decline in the Company's non-utility property.

Changes in Results of Operations

(Amounts in thousands except degree day data)

	Three Months Ended June 30		Nine Months Ended June 30		Twelve Months Ended June 30	
	1992	1991	1992	1991	1992	1991
Gross margin	\$ 21,992	\$ 18,321	\$ 96,346	\$ 78,435	\$109,238	\$ 88,992
Total volume throughput (DT):						
Residential	3,134	2,092	15,133	12,938	16,012	13,774
Small commercial	2,234	1,479	9,756	7,457	10,840	8,443
Large commercial and industrial	6,600	6,915	21,662	21,579	28,198	27,937
	<u>11,968</u>	<u>10,486</u>	<u>46,551</u>	<u>41,974</u>	<u>55,050</u>	<u>50,154</u>
Raleigh/Durham degree days:						
Actual	348	171	3,165	2,702	3,189	2,720
Normal	255	255	3,356	3,338	3,374	3,356
Percent of normal	136%	67%	94%	81%	95%	81%
Customers:						
Residential					213,573	203,397
Small commercial					26,195	24,919
Large commercial and industrial*					371	500
					<u>240,139</u>	<u>228,816</u>

* The decrease was due to the reclassification based on annual usage of 130 large commercial and industrial customers to small commercial customers.

Gross margin for the three, nine and twelve months ended June 30, 1992 increased 20%, 23% and 23%, respectively, as compared to the same periods of the previous year. The following factors contributed to the net increases:

- Quantities of gas sold to higher-margin, weather-sensitive residential and small commercial customers increased for all three periods. Quantities sold to residential customers during the three, nine and twelve months ended June 30, 1992 increased 50%, 17% and 16%, respectively, while quantities sold to small commercial customers increased 51%, 31% and 28%, respectively. This increase was due to weather, which was 104%, 17% and 17%, respectively, colder than the same periods last year and a 5% increase in both the residential and small commercial customer bases as compared to the previous year.
- The Company received from the NCUC a general rate order effective November 1, 1991 granting the Company an increase in annual revenues of \$5,300,000. Included in this order was a weather normalization adjustment (WNA) which was in effect November 1, 1991 through April 30, 1992. The normalized margins during November 1991 through April 1992 were

MANAGEMENT'S DISCUSSION (Continued)

relatively higher than in fiscal 1991 when margins were depressed due to abnormally warm weather and were not weather-normalized. The net impact of WNA for the nine and twelve months ended June 30, 1992 was to increase margins from their unadjusted levels by \$5,161,000. For the three months ended June 30, 1992, the increase in margin was partially negated by the WNA which decreased margin by \$756,000 during the month of April 1992 when weather was colder than normal.

The increase in gross margin for the nine and twelve months ended June 30, 1992 was partially offset by the effect of the previously discussed fixed gas cost tracking mechanism. For the nine and twelve months ended June 30, 1992, this resulted in the recognition of approximately \$3,000,000 and \$2,234,000, respectively, of additional costs as compared to the prior year.

Operating and maintenance expenses for the three, nine, and twelve months ended June 30, 1992 increased 18%, 10%, and 9%, respectively, as compared to the same periods of the previous year. Contributing to the increase for all three periods was an increase in educational expenses which resulted from the Company's expansion of its employee development programs, wage increases, and rising health insurance costs. Depreciation expense increased for the nine and twelve months ended June 30, 1992 due to utility plant additions. The Company is generally able to recover these types of costs through general rate cases. Operating and maintenance expense also included the accrual of \$750,000 for investigative costs related to the Company's former manufactured gas plant sites. (See section entitled, "Environmental Matters.")

General taxes increased for all three periods as compared to the prior year periods due to increased franchise tax expense which is calculated based on revenues.

Other income (deductions) decreased for all three periods as compared to the prior year periods. The decrease reflects decreased earnings from the Company's subsidiary operations as a result of decreased revenues received from its oil and gas properties and increased operating expenses associated with the acquisition of certain propane distribution assets. Also contributing to the decrease for the nine and twelve months ended June 30, 1992 was decreased earnings from the Company's merchandise operations. These losses reflect the increased cost of installing appliances sold and increased marketing promotions. The decrease for the nine and twelve months ended June 30, 1992 was partially offset by interest earned on recoverable purchased gas costs deferred pursuant to the previously discussed fixed gas cost tracking mechanism.

MANAGEMENT'S DISCUSSION (Continued)

Interest deductions for the nine and twelve months ended June 30, 1992 increased 1% and 2%, respectively, as compared to the same periods last year. These increases were due to the increased average bank loans outstanding which were offset somewhat by lower average interest rates.

The changes in earnings per share for all periods presented reflect increases of 3% in the average number of common shares outstanding, due primarily to shares issued through the Company's dividend reinvestment and stock option plans. Also contributing to the increased number of shares outstanding for the nine and twelve months ended June 30, 1992 was the issuance of shares through the Company's stock purchase plan.

Recent Pronouncements of the Financial Accounting Standards Board

In February 1992, the Financial Accounting Standards Board (FASB) issued its Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," which will require the Company to make certain changes in its accounting for both current and deferred income taxes. As discussed in Note 3 to the financial statements, adoption of the standard is not expected to have a material effect on the Company's financial position or results of operations.

In December 1990, the FASB issued its SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," required to be adopted no later than its fiscal year beginning October 1, 1993. As discussed in Note 4 to the financial statements, the Company does not expect the adoption to materially affect its financial position or results of operations.

Environmental Matters

During June 1992, the Company completed a preliminary evaluation of six former manufactured gas plant sites, portions of which are owned by the Company. The study was conducted by an environmental engineering firm and was intended to provide base data on the sites to assist the Company in developing a systematic plan to address any related potential environmental liabilities. One of the sites was determined to be low priority with no further action anticipated. The remaining five sites will require further investigation of the environmental conditions to make a detailed risk assessment to determine the need for and the extent to which cleanup measures may be required. Consequently, it is not possible to precisely estimate the potential costs to be incurred in assessing and, if necessary, conducting remediation at these sites. However, the investigative costs for determining the extent of any environmental degradation are expected to range from \$150,000 to \$400,000 per site for an aggregate cost of between \$750,000 and \$2,000,000. The Company expects the investigative costs to be incurred over the next two fiscal years. As these

MANAGEMENT'S DISCUSSION (Continued)

investigations are completed, the extent of further work can be more precisely estimated, including risk assessments required to evaluate potential health or environmental hazards, and feasibility studies to identify the most effective remediation techniques. This may also result in costs to implement and conduct remediation. Based upon an estimate of the minimum investigative cost at each of the remaining five sites, the Company has accrued \$750,000 in current liabilities with a corresponding charge to operating expenses.

The Company does not have any estimates of the extent to which these potential costs may be recoverable through rates, insurance, or third parties; accordingly, the full amount of the accrual has been expensed. All reasonable and prudent means for recovery will be examined by the Company. Although the NCUC has not taken a position to date on the recovery of such costs through utility rates, the continuing trend in the industry in other states is for regulators to permit recovery of at least portions of such costs. Management cannot predict the ultimate resolution of this matter at this time.

Gas Supply

On May 12, 1992, Public Service Company signed a Letter of Intent with its pipeline supplier, Transcontinental Gas Pipe Line Corporation (Transco), to become a minority equity owner in a new interstate pipeline. The pipeline is projected to be in service by November 1994 and will be operated by Transco under the jurisdiction of the Federal Energy Regulatory Commission (FERC). This pipeline, which will be an expansion of Transco's existing pipeline system, will increase available gas supplies in the Company's distribution area to help satisfy its projected growth requirements. In conjunction with this new capacity, the Company is considering several intrastate pipeline construction projects which will better enable it to move the associated gas supply to its eastern market.

On June 12, 1992, the Company received notification from Transco that it was not prepared at this time to extend its LGA Storage Agreement with the Company. This agreement is for storage capacity of 25,875 DT of natural gas annually. Transco stated that it intends to wait until such time that the effects of Order No. 636 on storage services are known before it agrees to extend the agreement.

On June 16, 1992, the Company also received notification from Transco that it was not prepared at this time to renew the Company's GSS Storage Agreement. This agreement is for storage capacity of 1,923,485 DT of natural gas annually. Transco's service to the Company is dependent upon, in part, Transco's GSS Storage Agreement with CNG Transmission Corporation (CNG), the primary term of which expired March 31, 1992. The terms of the GSS Storage agreement between Transco and CNG and between the Company and Transco require a 24-month written notice of termination, neither of which have been tendered. Transco intends to provide GSS

service to the Company for a minimum of such 24-month period but is unable to commit to extend the GSS Service Agreement beyond that time until the effects of Order No. 636 are better known. Management does not expect any material effect on the Company's financial position or results of operations as a result of these matters.

In April 1992, the FERC issued Order No. 636 in an attempt to finalize the restructuring of the interstate pipeline industry. Since its issuance, hundreds of requests for rehearing have been filed with the FERC. Given the fact that the Company's primary interstate pipeline supplier (Transco) is currently operating in an unbundled mode, the Company believes that unbundling as mandated by the Order will be workable and potentially beneficial for the natural gas industry. The Company, however, is concerned with a number of provisions in the Order, including the shift in rate design from modified fixed variable to straight fixed variable and the resulting burden it could place on its residential and small commercial customers. The Company has been and will continue to be active in proceedings to address these concerns. Management does not expect any material effect on the Company's financial position or results of operations as a result of this order.

Regulatory Matters

On April 15, 1992, the Attorney General for the State of North Carolina filed a petition with the NCUC to institute an investigation into the WNA, which was approved for all of the state's local distribution companies, on the grounds that the WNA is unjust and unreasonable. On August 4, 1992, the NCUC concluded that there were no reasonable grounds to reconsider or investigate the WNA in the context of a complaint proceeding, but the question concerning the WNA could be addressed in the context of each utility's next general rate case.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
COMPUTATION OF EARNINGS PER SHARE
(In thousands, except per share amounts)

	Three Months Ended June 30		Nine Months Ended June 30		Twelve Months Ended June 30	
	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>
Earnings (loss) available for common	\$ 767	\$ (92)	\$21,026	\$13,643	\$17,862	\$10,085
Average common shares outstanding	10,295	9,993	10,212	9,920	10,171	9,880
Additional dilutive effect of outstanding options (as determined by the application of the treasury stock method)	<u>56</u>	<u>33</u>	<u>44</u>	<u>30</u>	<u>40</u>	<u>30</u>
Average common shares outstanding as adjusted	<u>10,351</u>	<u>10,026</u>	<u>10,256</u>	<u>9,950</u>	<u>10,211</u>	<u>9,910</u>
Earnings (loss) per share, as adjusted	<u>\$.07</u>	<u>\$ (.01)</u>	<u>\$2.05</u>	<u>\$1.37</u>	<u>\$1.75</u>	<u>\$1.02</u>

This calculation is submitted in accordance with Regulation S-K item 601(b)(11) although not required by footnote 2 to paragraph 14 of APB Opinion No. 15 because it results in dilution of less than 3%.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Part I Exhibits:

- 11 - Statement re computation of per share earnings.

Part II Exhibits:

- 3-E - By-Laws, as amended to date.
- 4-D - Debenture Purchase Agreement, dated as of June 25, 1992, for \$32,000,000 of 8.75% Senior Debentures due June 30, 2012.

(b) Reports on Form 8-K:

The Company filed a Current Report on Form 8-K dated May 21, 1992, updating the description of its Common Stock.

The Company filed a Current Report on Form 8-K dated June 25, 1992, updating the description of its Common Stock.

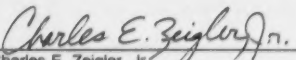
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

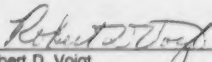
PUBLIC SERVICE COMPANY
OF NORTH CAROLINA, INCORPORATED

(Registrant)

Date 8-13-92


Charles E. Zeigler, Jr.
President and
Chief Executive Officer

Date 8-13-92


Robert D. Voigt
Senior Vice President - Finance
and Treasurer